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September 1988 Monthly Survey October 7, 1988

Surveys of Consumers

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Confidence Remains at High Level

Index Unchanged

The Index of Consumer Sentiment was 97.3 in the September 1988 survey, nearly identical with the 97.4 recorded in August, and above the 93.6 recorded in September 1987. Overall, consumer sentiment is now more favorable than anytime since mid 1986. Very favorable assessments of personal finances continue to underpin this renewed sense of confidence.

Among families with incomes of $40,000 or more, the Index rose slightly to 105.4 in September from 104.2 one month earlier and 104.3 one year earlier.

Personal Finances Remain at Record Levels

American families reported very favorable assessments of their own financial situation in the September 1988 survey. An improved financial situation was reported by 49 percent of all families in the September survey, just below the twenty year peak of 50 percent recorded in August, and above the 42 percent recorded one year earlier.

These favorable assessments continue to be based on widespread reports of increases in family incomes--reported by 40 percent of all families in September, up from 33 percent one year earlier.

Families also expressed quite favorable prospects for their financial situation during the year ahead. In the September 1988 survey, 41 percent of all families expected their financial situation to improve during the year ahead, up from 35 percent one year earlier and the highest proportion recorded since the start of the current expansion. Moreover, just 8 percent of all families expected a worsening financial situation during the year ahead.

The September 1988 survey, compared with a year earlier, recorded more families that expected their income to increase by 6% or more (32 versus 22 percent), and fewer families expected their incomes to remain unchanged or to decline during the year ahead (35 versus 41 percent). And despite the higher inflation expectations that now prevail, real income expectations were more positive in the September 1988 survey than anytime since 1986.

Price and Interest Rate Expectations Unchanged

Inflation and interest rate expectations remained largely unchanged in the September 1988 survey from the unfavorable levels recorded in prior months.

Consumers expected the annual inflation rate to average 5.5% in the September 1988 survey. Following the rapid increase recorded from March to June, when the expected inflation rate rose from 4.1% to 5.6%, price expectations have since then remained largely unchanged.

Interest rates were expected to increase during the year ahead by 67 percent of all families in the

September 1988 survey, a level that has remained largely unchanged since the May survey, and is equal to the September 1987 reading.

Outlook for National Economy Remains Positive

Half of all families in the September 1988 survey thought that business conditions in the country as a whole had improved during the past year, up from 40 percent six months earlier, and equal to the year earlier pre-crash reading.

Improvement in the national economy during the year ahead was expected by 27 percent of all families in the September 1988 survey, up from 24 percent one month earlier and 21 percent one year earlier. Just 14 percent of all families in the September 1988 survey expected the national economy to worsen during the year ahead. The majority of consumers in September, as they have since the mid point of this long expansion, expected the performance of the economy to remain largely unchanged during the year ahead (55 percent).

The majority of consumers in the September 1988 survey expected the national unemployment rate to remain largely unchanged at its current low level during the year ahead (52 percent).

Prospects for the domestic economy over the longer term were also favorable. In both the August and September 1988 surveys, for the first time in almost four years, the proportion of families that expected good times financially over the next five years was slightly higher than the proportion that expected bad times financially (41 versus 39 percent in September).

Buying Attitudes Soften But Remain Favorable

Favorable attitudes toward home buying conditions were held by 70 percent of all families in the September 1988 survey, between the 67 percent recorded one month earlier and the 71 percent recorded one year earlier. The recent improvement in home buying attitudes has been due to the rising appeal of borrowing-in-advance of expected mortgage rate increases. During the past six months, the proportion of families that referred to the availability of low mortgage rates fell from 47 to 22 percent, while the proportion mentioning the appeal of borrowing-in-advance of rising rates rose to 21 from 7 percent.

Favorable attitudes toward car buying conditions were held by 61 percent of all families in the September 1988 survey, just below the 62 percent recorded in each of the prior three months. Car buying attitudes are now somewhat less favorable than a year earlier, when 65 percent held favorable buying attitudes, largely due to changing perceptions of interest rates on vehicle loans. Just 14 percent of all families mentioned the availability of low and discounted interest rates on new vehicle loans in the September 1988 survey, down from 36 percent one year earlier.

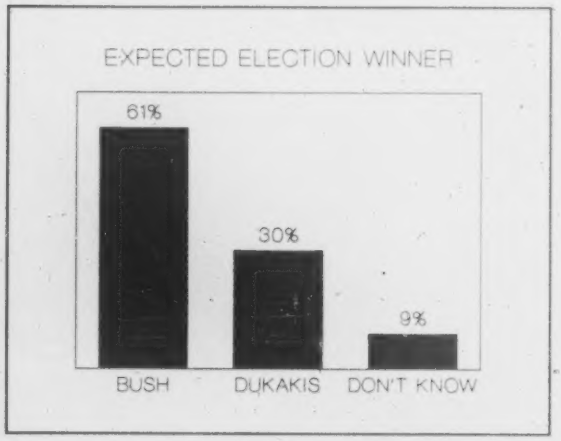
Attitudes toward buying conditions for appliances, furniture, and home electronics remained at favorable levels. Among all families in the September 1988 survey, 71 percent held favorable views of buying conditions for household durables, down from 74 percent one month earlier and 75 percent one year earlier. The small recent decline was due to fewer references to the availability of low and discounted prices, falling to 33 percent in the September 1988 survey, from 36 percent one month earlier and 37 percent one year earlier.

The Presidential Election and Consumer Sentiment

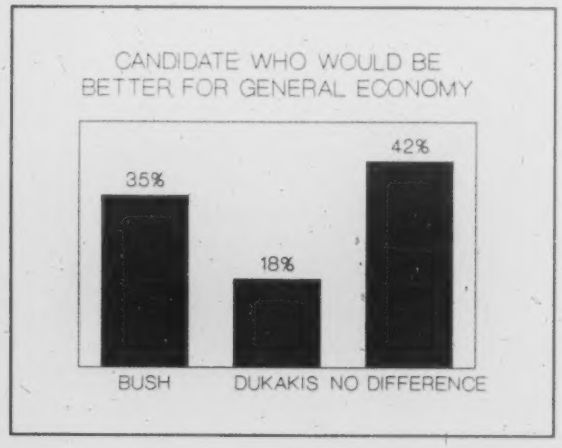
The September 1988 survey included several questions on the upcoming presidential election to help determine its impact on consumer attitudes and expectations. Rather than asking about which candidate the respondent preferred or intended to vote for, respondents were asked about who they expected to win the election. Of central interest was whether and how the expected election

outcome would influence their economic expectations.

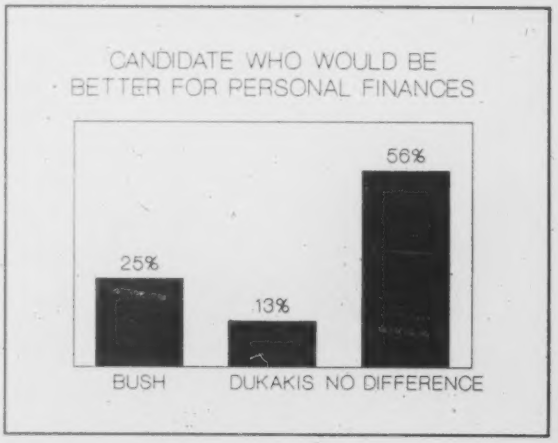
As shown in the chart below, the majority of consumers expected Bush to win the election (61 versus 30 percent).[1] Among those that expected a Bush victory, the Index of Consumer Sentiment was 101.6; among those that expected a Dukakis victory the Index was 92.9.



Respondents were also asked whether economic conditions in the country as a whole would be better if Bush or Dukakis were elected.[2] The most common response--reported by 42 percent of all respondents--was that it would not make much difference whether Bush or Dukakis were elected. Among the balance of respondents, however, nearly twice as many respondents thought that economic conditions would be better if Bush were elected as thought that economic conditions would be better if Dukakis were elected--35 versus 18 percent.



Respondents were also asked whether they thought their own personal financial situation over the next two years or so would be better if Bush or Dukakis were elected.[3] The majority of respondents (56 percent) thought that it would not make much difference to their own personal financial situation. Among those that did think the election outcome would influence their family's financial situation, nearly twice as many thought that their financial situation would benefit if Bush rather than Dukakis was elected--25 versus 13 percent.



These data suggest that the balance of opinion favors Bush on these economic issues, but that for most people the difference between the two candidates is small. And the data also suggest that a Bush victory in November has already been largely incorporated in consumers' current economic expectations. As a consequence, while a Bush victory can be expected to have little further impact on consumer expectations, a Dukakis victory may mean a greater realignment in expectations.

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The September 1988 survey included 500 completed interviews conducted between September 6 and September 30, 1988.

1. The question was: "The next several questions are about the upcoming election. Who do you think will be elected President in November--Bush or Dukakis?"

2. The question was: "Looking ahead to the next two years or so, do you think economic conditions in the country as a whole would be better if Bush were elected, or would economic conditions be better if Dukakis were elected, or wouldn't it make much difference?"

3. The question was: "Now thinking about your (family's) financial situation over the next two years or so, do you think you (and your family living there) would be better off financially if Bush were elected, or would you be better off financially if Dukakis were elected, or wouldn't it make much difference?"